

## INSTITUTIONAL REIMBURSEMENTS

### Revenue Description

The Montana Department of Public Health and Human Services (DPHHS) operates facilities to treat persons with developmental disabilities and mental illnesses. The Montana Developmental Center in Boulder (MDC) serves persons with developmental disabilities. The Montana State Hospital in Warm Springs (MSH) and the Montana Mental Health Nursing Care Center in Lewistown (MMHNCC) treat persons with severe mental illnesses.

The department charges patients for treatment based on cost and on their ability to pay (53-1-405, MCA). Patients and their families, patients' insurance, Medicare, and Medicaid pay these charges. At MDC and MSH, payments go first to repay the institutions' mortgages (90-7-220 and -221, MCA). After the mortgage obligations are met, payments for care at the four institutions are deposited in the general fund.

### Historical and Projected Revenue

Table 1 shows actual institutional reimbursements going to the general fund for FY 1994 through FY 2004, and projections for FY 2005 through FY 2007.

<b>Table 1</b> <b>Institutional Reimbursements - General Fund Revenues</b> <b>(\$ millions)</b>			
Fiscal Year	General Fund	Percent Change	
A 1994	\$ 15.415	6.41%	
A 1995	\$ 16.456	6.75%	
A 1996	\$ 16.142	-1.91%	
A 1997	\$ 11.158	-30.88%	
A 1998	\$ 10.335	-7.38%	
A 1999	\$ 11.136	7.75%	
A 2000	\$ 11.345	1.88%	
A 2001	\$ 13.554	19.47%	
A 2002	\$ 14.283	5.38%	
A 2003	\$ 13.043	-8.68%	
A 2004	\$ 18.110	38.86%	
<b>F 2005</b>	<b>\$ 16.314</b>	<b>-9.92%</b>	
<b>F 2006</b>	<b>\$ 15.123</b>	<b>-7.30%</b>	
<b>F 2007</b>	<b>\$ 15.134</b>	<b>0.07%</b>	

The pattern of reimbursements through FY 2004 reflects significant changes in the institutions and in the way their costs are paid. First, a mental health managed care system was implemented in FY 1997 for MSH and MMHNCC. The managed care contractor billed patients' families, insurance companies, Medicare, and Medicaid, and then deposited the funds in a special revenue account for the two institutions. This caused the large drop in institutional reimbursements to the general fund in FY 1997. The managed care contract was terminated in FY 2000, but the flow of funds remained the same.

Second, new facilities have been built at MDC and MSH. Mortgage payments for these new facilities began in 1995 for MDC, and in 1997 for MSH.

Third, MSH became Medicare-certified. This allows it to bill Medicare for more of eligible residents' expenses than it has in the past. While only about 5% of patient days are eligible for Medicare reimbursement, this significantly increased total reimbursements to MSH, beginning late in FY 2001.

Fourth, the average populations have changed at some of the institutions. DPHHS moved some residents from one institution to another and moved some residents back into their communities in assisted-living programs or other arrangements. At the same time, court-ordered admissions have increased.

Fifth, legislation passed by the 2003 legislature significantly affected reimbursements. HB 722 and HB 743 make state institutions subject to state health care facility taxes. These taxes are part of the cost basis for Medicaid reimbursement, which increased reimbursements. HB 727 closed Eastmont at the end of December 2003. This reduced reimbursements beginning in FY 2004. Through FY 2003, Medicaid payments for MSH and MMHNCC were deposited in a special revenue account. HB 121 requires that they be deposited in the general fund.

Future reimbursements will be affected by the settlement of a lawsuit against DPHHS. As part of this settlement, DPHHS has agreed to move some of the residents of MDC to assisted-living facilities in their communities. These facilities are not state institutions, and the state will not receive reimbursement for services at them.

Beginning in FY 2005, state district courts will begin reimbursing DPHHS for costs of housing defendants who have been found incompetent to stand trial.

### **Forecast Methodology and Projection Calculation**

At each institution, there are up to five sources of reimbursement for patients' costs: patients and their families; insurance; Medicare; Medicaid; and the state court system. There are four steps to estimating general fund receipts: 1) estimating daily reimbursement rates for each type of reimbursement at each institution; 2) estimating the number of care days for which each institution will be reimbursed; 3)

multiplying the reimbursement rates by the number of care days to give gross reimbursements; and 4) subtracting the institutions' mortgage payments to give general fund revenue.

**STEP 1 : Average Daily Reimbursements**

There are four primary reimbursement sources. They are patients and their families, insurance, Medicare, and Medicaid. Residents and their families are billed by DPHHS based on cost and their ability to pay. For adults in long-term care, the primary resource for these payments is Supplemental Security Income disability payments. The Social Security Administration adjusts these payments for inflation annually based on the change in the Bureau of Labor Statistics consumer price index for urban wage earners (CPIW). Daily reimbursement rates were estimated by applying Global Insight's forecast of the CPIW to actual reimbursements in FY 2004.

Table 2 shows reimbursements from patients and their families per day in FY 2004, the forecast of the annual percentage change in the CPIW since FY 2004, and forecast private reimbursement rates for each of the institutions through FY 2007.

<b>Table 2 Average Patient and Family Reimbursement per Day</b>				
Fiscal Year	CPIW % Change since 2004	MDC	MSH	MMHNCC
A 2004		\$10.23	\$14.28	\$22.84
F 2005	2.49%	\$10.49	\$14.63	\$23.40
F 2006	3.95%	\$10.90	\$14.84	\$23.74
F 2007	5.58%	\$11.51	\$15.07	\$24.11

Private insurance covers a small fraction of the cost of services at state institutions. Individual residents' policies may or may not include cost-of-living adjustments, but over time, the average coverage of new residents should be increasing. Thus, insurance reimbursements are forecast to increase at the rate of inflation.

Table 3 shows the average insurance reimbursement per day for FY 2004 through FY 2007. These rates are insurance reimbursements for a few covered residents divided by the total number of care days for all residents, most of whom have no applicable coverage.

<b>Table 3 Average Insurance Reimbursement per Day</b>				
Fiscal Year	CPI-W % Change since 2004	MDC	MSH	MMHNCC Secure Care
A 2004		\$0.07	\$5.82	\$0.07
F 2005	2.49%	\$0.08	\$5.97	\$0.08
F 2006	3.95%	\$0.08	\$6.05	\$0.08
F 2007	5.58%	\$0.08	\$6.15	\$0.08

Medicare provides coverage for medical costs for the aged and disabled. Medicare rates are set for each fiscal year by the Health Care Financing Administration using a formula that depends on medical cost inflation, past payments, growth in the number of persons covered, the type of health care service received, and the state and county where it is received. Future Medicare payments per day are estimated by applying Global Insight's forecast of the consumer price index for expenditures on medical care (CPI-M) to the baseline rates.

Table 4 shows Medicare reimbursements per care day in FY 2004, Global Insight's forecast of medical cost inflation, and estimated Medicare reimbursements per care day for FY 2005 through FY 2007.

<b>Table 4</b>				
<b>Average Medicare Reimbursement per Day</b>				
Fiscal Year	CPI-M % Change since 2004	MDC	MSH	MMHNCC Secure Care
A 2004		\$0.30	\$23.88	\$0.50
F 2005	2.80%	\$0.31	\$24.47	\$0.52
F 2006	5.99%	\$0.32	\$24.82	\$0.54
F 2007	9.85%	\$0.34	\$25.21	\$0.56

Daily reimbursement rates for Medicaid are set at the beginning of each biennium. The rate for the first year of the biennium is set equal to the difference between the full daily cost of care and expected reimbursements from other sources. For the second year of the biennium, the same formula is used, but rates for the second year are limited to 103.3% of the first year's rates.

Medicaid pays costs that residents cannot. Therefore, Medicaid reimbursements per day equal the full cost rate less the patient and family reimbursements per day shown in Table 2.

Medicaid is a joint federal-state program, and only the federal portion comes to the state as a net reimbursement. The federal government pays a fixed share of the reimbursement for each care day. Medicaid also pays some ancillary costs that are not on a daily basis, such as medications. The total for these payments was divided by care days to give an average daily rate.

Table 5 shows the daily reimbursement rates, the federal share of costs, federal ancillary payments, and the net Medicaid reimbursement rates.

<b>Table 5</b>										
<b>Federal Medicaid Reimbursements</b>										
<u>Fiscal Year</u>	<u>Medicaid Full Cost Rate</u>		<u>Patient Payment per Day</u>		<u>Medicaid Daily Rate</u>		<u>Federal Share</u>		<u>Ancillary Payments</u>	<u>Federal Medicaid Daily Rate</u>
-----Montana Developmental Center-----										
F 2005	\$511.79	-	\$10.49	=	\$501.30	x	72.14%	+	\$0.90	= \$362.54
F 2006	\$518.36	-	\$10.90	=	\$507.46	x	70.90%	+	\$0.91	= \$360.67
F 2007	\$517.27	-	\$11.51	=	\$505.76	x	70.16%	+	\$0.93	= \$355.74
-----Montana State Hospital-----										
F 2005	\$200.64	-	\$14.63	=	\$186.01	x	72.14%	+	\$0.00	= \$134.19
F 2006	\$204.65	-	\$14.84	=	\$189.82	x	70.90%	+	\$0.00	= \$134.57
F 2007	\$208.75	-	\$15.07	=	\$193.68	x	70.16%	+	\$0.00	= \$135.87
-----Montana Mental Health Nursing Care Center-----										
F 2005	\$250.73	-	\$23.40	=	\$227.33	x	72.14%	+	\$0.00	= \$163.99
F 2006	\$258.25	-	\$23.74	=	\$234.51		70.90%	+	\$0.00	= \$166.26
F 2007	\$266.00	-	\$24.11	=	\$241.89		70.16%	+	\$0.00	= \$169.70

Step 2: Care Days

Table 6 shows projected populations for FY 2005 through FY 2007. DPHHS plans to reduce the number of residents at MDC during FY 2005 and then have a stable population in FY 2006 and FY 2007. The number of residents at the other institutions is expected to be stable through FY 2007.

<b>Table 6</b>			
<b>Forecast Institutional Populations</b>			
<b>Average Residents</b>			
<u>Fiscal Year</u>	<u>MDC</u>	<u>MSH</u>	<u>MMHNCC</u>
F 2005	89.6	189.1	70.0
F 2006	80.0	189.1	70.0
F 2007	80.0	189.1	70.0

Step 3: Reimbursements

Total reimbursement for a fiscal year at each institution is the average daily reimbursement times the number of care days. Care days are the average number of residents times 365 days in a year (366 in leap years). Tables 7 through 9 show the calculation of reimbursements. They show non-Medicaid and Medicaid reimbursements separately because not all residents are eligible for Medicaid.

Table 7 shows total reimbursements for MDC.

<b>Table 7</b>							
<b>Forecast Reimbursements, Montana Developmental Center</b>							
Fiscal Year	-----Non-Medicaid-----			-----Medicaid-----			Total
	Care Days	Average Daily Reimbursement	Care Days	Average Daily Reimbursement			
F 2005	32,721	x \$10.87	+ 30,758	x \$362.54	=	\$11,506,591	
F 2006	29,200	x \$11.30	+ 27,448	x \$360.67	=	\$10,229,768	
F 2007	29,200	x \$11.93	+ 27,448	x \$355.74	=	\$10,112,798	

Table 8 shows total reimbursements for MSH. It includes \$1 million in anticipated reimbursements from the Judicial Branch for defendants who have been found unfit to stand trial. This is a new reimbursement source in FY 2005, and no projections have been made for populations or daily charges. The estimate is based on costs incurred in FY 2004 for housing and treating persons the courts placed in state institutions because they were unfit to stand trial.

<b>Table 8</b>							
<b>Forecast Reimbursements, Montana State Hospital</b>							
Fiscal Year	-----Non-Medicaid-----			-----Medicaid-----			Total
	Care Days	Average Daily Reimbursement	Care Days	Average Daily Reimbursement	Judiciary		
F 2005	69,004	x \$45.07	+ 2,415	x \$134.19	+ \$1,000,000	=	\$4,434,044
F 2006	69,004	x \$45.71	+ 2,415	x \$134.57	+ \$1,000,000	=	\$4,479,319
F 2007	69,004	x \$46.43	+ 2,415	x \$135.87	+ \$1,000,000	=	\$4,532,019

Table 9 shows reimbursements for MMHNCC. In addition to reimbursements based on care days, Medicaid also reimburses MMHNCC for medicines dispensed through the institution's pharmacy.

<b>Table 9</b>							
<b>Forecast Reimbursements, Montana Mental Health Nursing Care Center</b>							
Fiscal Year	-----Non-Medicaid-----			-----Medicaid-----			Total
	Care Days	Average Daily Reimbursement	Care Days	Average Daily Reimbursement	Pharmacy Reimbursement		
F 2005	25,550	x \$24.00	+ 15,585	x \$163.99	+ \$127,000	= \$3,296,025	
F 2006	25,550	x \$24.36	+ 15,585	x \$166.26	+ \$130,900	= \$3,344,297	
F 2007	25,550	x \$24.75	+ 15,585	x \$169.70	+ \$135,700	= \$3,412,685	

Step 4: General Fund Revenues

General fund revenue is total reimbursements minus debt service payments for MDC and MSH. Table 10 shows the calculation of general fund receipts from institutional reimbursements for service in FY 2005 through FY 2007.

<b>Table 10</b>							
<b>Institutional Reimbursements to the General Fund</b>							
<b>(\$ millions)</b>							
Fiscal Year	-----Reimbursements-----			----Debt Service----		General Fund	
	MDC	MSH	MMHNCC	MDC	MSH		
F 2005	\$11.507	+ \$4.434	+ \$3.296	- \$1.013	- \$1.909	= \$16.314	
F 2006	\$10.230	+ \$4.479	+ \$3.344	- \$1.017	- \$1.913	= \$15.123	
F 2007	\$10.113	+ \$4.532	+ \$3.413	- \$1.015	- \$1.909	= \$15.134	